

STATE OF NEW JERSEY  
EXECUTIVE DEPARTMENT

ASSEMBLY BILL NO. 4202

To the General Assembly:

Pursuant to Article V, Section I, Paragraph 14 of the New Jersey Constitution, I am returning Assembly Bill No. 4202 without my approval. For the second time in two years, the Legislature proposes a failed policy - raising income taxes on individuals and businesses within our State - as a solution to the years of reckless taxing and spending that created our current fiscal problems. I have little doubt that the sponsors and supporters of this bill wish that New Jersey could avoid the difficult decisions that accompany this time of limited resources. I am equally confident that wishing away our state's serious fiscal problems and adhering to the broken cycle of spending and taxing that has failed New Jersey in the past will only ensure New Jersey's future among those states teetering on insolvency and ruin. As I vowed during my candidacy, as I reaffirmed after my election, and as I wrote in my veto of Assembly Bill No. 10 last year, I will not allow the failed policies of the past to continue on my watch. Those policies ended seventeen months ago and they will certainly not return again now.

This bill would increase the tax rate imposed upon individuals and businesses with taxable gross incomes exceeding \$1,000,000 from the current rate of 8.97% to a new rate of 10.75% for tax years 2011 and 2012. This bill would also increase the exclusion for senior and disabled taxpayers to exclude pension, annuity, endowment, life insurance contract, disability, and retirement benefit income from their annual gross income. Neither solution is a sensible, long-term remedy that addresses the causes of our State's financial condition.

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Although now well-known it bears repeating that our citizens are already subject to one of the highest state income tax rates in the nation. Indeed, New Jersey residents saw their taxes and fees raised 115 times over the eight years prior to my taking office. Using now familiar rhetoric, the sponsors and supporters of this bill advertise tax increases as a necessity to achieve shared sacrifice. But no one contests that the top one-tenth of one percent of taxpayers in this state already pay 19 percent of the State's income tax, the top one-half of one percent pay almost one-third, the top one percent pay nearly 40 percent and that the top 10 percent pay 71 percent.

The proposed income tax increase would also exacerbate the extreme volatility of New Jersey's revenue base, making it even more difficult to forecast revenues, make sound budget decisions and achieve the fiscal stability that is essential to long-term economic growth. To put the impact of that volatility in perspective, in 2009 New Jersey had 330 taxpayers who reported more than \$10 million in income. As a group, these 330 taxpayers paid approximately \$678 million in state income tax, an average of over \$2 million each, representing seven percent of the total tax. Individually, each one of those taxpayers contributed an amount of revenue equivalent to the amount contributed by approximately 1000 taxpayers reporting \$100,000 in income. It is New Jersey's obvious interest to welcome high-income taxpayers and encourage them to choose New Jersey instead of adopting punitive policies that drive them to other jurisdictions.

Also, it is important to remember that many small businesses report their income and pay taxes under the income tax. In fact, 71 percent of the taxpayers that would pay the top tax rate under this legislation report income from business

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activity. In total, nearly 42 percent of the revenue subject to this proposed tax increase represents business income. I cannot allow this job killing tax increase on small businesses.

And while the New Jersey Legislature today offers ever more new taxes, New York recently adopted a budget that will reduce the tax burden on that state's top income tax bracket to nearly four percent less than the rate proposed under this legislation. Moreover, Pennsylvania's top income tax rate remains at three percent, nearly eight percent lower than this legislation would impose.

No sensibly crafted economic policy would seek to continue the exodus of our strongest businesses and most successful individuals across the Hudson or the Delaware or to the states all across America with more competitive tax environments. Finally, while the sponsors of this legislation offer this tax as a "temporary" solution, this same solution was also "temporary" when it was proposed in 2009 and 2010. The time for "temporary" gimmicks that mask our problems and masquerade as change has long passed.

I recognize that not all will agree with my action today. That some believe we should abandon the difficult duty of reform for the "temporary convenience of the present." Over the past seventeen months we have charted a different course. Working together, without compromising our ideals and while respecting our differences, we have already developed workable solutions to many of the deepest problems that have plagued our citizens for generations. We must not now turn back. Our State can, and will, learn to live within our collective means. By answering the challenges that confront us with innovation and industry, we can restore New Jersey to its historic rank as a leader of American prosperity.

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Accordingly, I herewith return Assembly Bill No. 4202  
without my approval.

Respectfully,

[seal]

/s/ Chris Christie  
Governor

Attest:

/s/ Jeffrey S. Chiesa

Chief Counsel to the Governor